LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6787
BILL NUMBER: HB 1086

NOTE PREPARED: Jan 28, 2010
BILL AMENDED: Jan 28, 2010

SUBJECT: Property and Local Income Taxes.

FIRST AUTHOR: Rep. Welch
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Maximum Levy:* This bill specifies that the use of a cash balance to reduce a property tax rate does not reduce a civil taxing unit's maximum permissible levy.

Standard Deduction: The bill permits an individual to receive both a senior citizen property tax deduction and a supplemental standard deduction.

Delinquent Taxes: This bill requires payment of certain delinquent property taxes before removing property from the tax sale list or allowing a person to record a plat of a subdivision or a transfer of real property.

Deadlines: The bill changes the deadline for filing a rehabilitation property tax deduction application. The bill also extends the time in which an ordinance imposing, increasing, or decreasing a local income tax may be adopted.

Fire Protection Territories: The bill permits fire protection territories (FPT) to delay part of an increase in property taxes for up to three years.

LOIT Credits: This bill requires surplus local option income tax revenue to be used as property tax replacement credits.

Miscellaneous: The bill defines the term "mobile home community" for the purposes of the property tax laws. It also corrects references to the definition of homestead, removes references to obsolete administrative rules related to inventory, and makes other technical changes property tax laws.

Solar Energy Systems: The bill describes various solar heating and cooling systems that are eligible for the deduction. It changes the method by which solar heating and cooling systems are valued for purposes of a property tax deduction. The bill also indicates that a mobile home owner does not need to annually file for a solar heating and cooling system exemption.

Study Committee: This bill provides for a study of the allocation and distribution of local income taxes and for the preparation of corrective legislation to amend all laws affected by the change in the last date that local taxes can be imposed, increased, or decreased in a county.

Effective Date: (Amended) Upon passage; March 1, 2008 (retroactive); January 1, 2009 (retroactive); January 1, 2010. (retroactive); March 1, 2010 (retroactive); July 1, 2010.

Explanation of State Expenditures: (Revised) *Study Committee:* This provision would require the Commission on State Tax and Financing Policy to study the allocation and distribution of local income taxes during the 2010 interim. There would be no additional expense to include this topic of study.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Delinquent Taxes:* Under current law, a transfer of ownership interest for a real property parcel that results from either a split or a combination of parcels may not be recorded until all past due property taxes are satisfied and the county auditor makes an endorsement. This bill would also require payment of past due taxes and the auditor's endorsement before property is removed from the tax sale list and before a division, partition, or ownership change is made for any reason. This provision could increase the number of property transfers that would have to be endorsed by the county auditor.

LOIT Credits: Under current law, the Department of Local Government Finance (DLGF) must calculate and certify the county homestead credit percentage for the LOIT-funded homestead credit. Under this bill, each county would make their own calculation. The bill also specifies that revenue remaining after LOIT property tax replacement is paid, if any, must be used for property tax replacement in subsequent years.

Explanation of Local Revenues: *Maximum Levy:* Under current law, civil taxing unit maximum levy limits grow by the six-year average increase in Indiana nonfarm personal income. The growth factor is applied to the sum of the previous year's actual controlled levy *after eliminating the effects of temporary adjustments to the working maximum levy*, plus one-half of the amount of maximum levy in the previous year that was not levied.

Under this bill, a cash balance used by a taxing unit to temporarily reduce the actual levy would be treated as property taxes in the maximum levy calculation. So, the following year's maximum levy calculation would be based on the unreduced levy amount. This provision could encourage taxing units to use cash balances and temporarily reduce levies without losing any levy authority.

Standard Deduction: Under current law, homeowners who receive the senior deduction may not receive any other deductions except for the mortgage deduction and the traditional standard deduction. The new supplemental homestead standard deduction is automatically granted to any homeowner that receives the traditional standard deduction. This bill clarifies that senior taxpayers may receive both the over-65 deduction and the supplemental standard deduction.

Deadlines - Rehabilitation Property Tax Deduction Applications: Under current law, an application for a rehabilitated property tax deduction must be filed in the year of assessment or within 30 days of receiving a notice of assessment if received before *December 31st*. This provision would allow the filing within 30 days of receiving a notice of assessment if received before *December 1st*.

Deadlines - LOIT Changes: Currently, most LOIT rate adoptions, rescissions, or changes must be adopted between April 1st and July 31st, inclusive, to be effective in the year adopted. Under this bill, adoptions, rescissions, or changes may be made at any time in a year before November 1st. This provision could result in faster implementation of LOIT changes adopted by a county. The effective dates, based on adoption date, are as follows.

Proposed Effective Dates For New or Increased LOIT Rates	
Adoption Date	**Effective Date**
January 1 to September 30	October 1
October 1 to October 15	November 1
October 16 to October 31	December 1

Proposed Effective Dates For Rescinded or Reduced LOIT Rates	
Adoption Date	**Effective Date**
January 1 to September 30	Later of : October 1 or same month as last rate increase
October 1 to October 15	Later of : November 1 or same month as last rate increase
October 16 to October 31	December 1

(Revised) *Fire Protection Territories:* Under current law, the legislative bodies of at least two contiguous taxing units may establish a fire protection territory. All units involved in the FPT are participating units, one of which is the provider unit. During the first three years of the territory's existence, the participating units each impose a property tax levy to support the FPT. After three years, the provider unit imposes a levy and tax rate upon all of the property in the FPT and the other participating units' levies for fire protection are eliminated.

Prior to the passage of HEA 1001-2008, a participating unit's maximum levy could be increased in the first three years in order to generate the unit's share of the amount necessary to fund the FPT. Under HEA 1001-2008, the levy for an FPT could not increase in any year by more than the income-based assessed value growth quotient (AVGQ), about 3% per year.

However, under HEA 1001-2009ss, new participating units will submit their first-year proposed budget, levy, and tax rate for the FPT to the DLGF. The initial levy set by the DLGF is the basis for future levy growth under the AVGQ growth limits, except that the DLGF may reduce the base by all or a part of the initial levy that was used to establish an operating balance. The operating balance may not exceed 20% of budgeted expenses.

Under this bill, a civil taxing unit may petition the DLGF for an increase in its maximum levy to meet its obligations to the FPT. The DLGF may grant increases over a three-year period, allowing for a reasonable operating balance, with no specific limit rather than the current 20% limit. This provision would permit more flexibility in setting maximum levies in the first three years. Initial levies could be higher under this bill to build an operating balance if the DLGF determines that the reasonable operating balance exceeds 20% of expenditures.

(Revised) *Solar Energy Systems:* Under current law, the owner of real property or a mobile home may receive a property tax deduction if the property is equipped with a solar energy heating or cooling system. The amount of the deduction equals the difference between the assessed value with the system and the assessed value without the system. The DLGF is required to promulgate rules regarding the determination of the system's value.

This bill removes the requirement for the DLGF to promulgate rules on solar system deductions. Instead, this provision would set the deduction amount equal to the out-of-pocket expenditures for the system's components and installation. This provision would simplify the county auditor's determination of the deduction amount. There would likely be little or no change in the amount deducted.

State Agencies Affected: DLGF; State Budget Agency.

Local Agencies Affected: County auditors; County councils and income tax councils; Fire protection territories.

Information Sources: Local Government Database, DLGF.

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